



with hospital inpatient and physician maternity services. The reductions are necessary due to the full repricing of the encounter experience to Medicaid fee-for-service rates.

#### **h. Region Factors**

OMPP has separated the counties into eight regions: Northwest, North Central, Northeast, West Central, Central, East Central, Southwest, and Southeast. Separate capitation rates were established for non-MA-U Package A/B, Package C, and maternity delivery on a regional basis. The regional rates were adjusted by area factor relativities developed from the encounter experience in calendar year 2008.

For the non-MA-U Package A/B and Package C rates, risk scores by geographic region and population were determined using the Restricted Medicaid Rx (MRX) model Version 5.1 with Pharmacy Carveout. The MRX model was run using national drug code (NDC) values submitted with pharmacy encounter data.

Area factors for the maternity case rate were developed from the re-priced encounter cost experience for calendar year 2008. The regional variability in claim cost for services included in the maternity case payment is significantly less than other state plan services.

#### **i. Administrative Allowance**

In the development of the actuarially sound capitation rates, Milliman has included an administrative cost allowance of 14.0% for the high rate range and 15.0% for the low rate range for the non-maternity capitation rates and 5.0% for the delivery case rate. The intent of including a higher percentage administrative cost allowance for the low rate range was to avoid reducing the effective per capita cost allowance since the low rate range assumptions assume increased healthcare management.

The administrative cost allowance was calculated as a percentage of the capitation rate. Therefore, the capitation rate was determined by dividing the projected managed care claim cost by one minus the administrative cost allowance (*e.g.*, 1 minus 15.0%). By determining the capitation rate in this manner, the administrative allowance may be expressed as a percentage of the capitation rate. On a composite basis, the administrative cost allowance is approximately 13.0% to 13.9%. The composite would vary for each health plan based on the number of members and deliveries.

In the establishment of the administrative cost allowance, we have utilized a value that is representative of Medicaid managed care organizations. Milliman reviewed the financial statements from the Indiana Medicaid managed care organizations for calendar years 2007, 2008 and 2009 through March 31, 2009. Based upon this review, we have included the administrative cost allowances as outlined in Table 8.